

TAX FACTS

April 2010

With Tax Day looming, the following information might be useful in conveying the growing burden of complying with the federal tax code.

By the Numbers:

- The IRS's [Taxpayer Advocate Service](#) notes that "The Code has grown so long that it has become challenging even to figure out how long it is." But by their best estimate, not counting legislation passed since 2007, the tax code contains approximately 3.7 million words.
- According to the [Tax Foundation](#), as of 2005 (the most recent data available), IRS regulations contained over 6,958,000 words—an 18.7% increase since 1995 and almost 9 times the total number of words in the King James Bible.

Compliance & The IRS:

- According to the National Taxpayers Union (NTU), in fiscal year 2009, the IRS estimated that individual and business taxpayers spent 7.75 billion hours complying with the tax laws. That is the equivalent of 3.7 million employees working 40-hour weeks year-round without any vacation.
- The National Taxpayers Union (NTU) estimates that, in 2009, individual taxpayers spent 3.8 billion hours complying with the federal income tax laws. Using the most recently reported average employer cost for civilian workers by the Bureau of Labor Statistics of \$29.18 per hour, this time is worth an incredible \$110.6 billion.
- The Internal Revenue Service (IRS) reported that individuals spent an estimated \$29.33 billion in 2009 for tax software, tax preparers, postage, and other out-of-pocket costs related to filing their federal income tax—that is almost twice the size of Honduras's economy.
- The IRS's National Taxpayer Advocate estimates that taxpayers spend \$193 billion each year to comply with income tax requirements. This amounts to 14% of aggregate income tax receipts.

- According to the IRS, the form 1040 in the year 1935 was accompanied by a two-page instruction booklet. The corresponding instruction booklet for 2007 was 155 pages. Today's *short* form, at 48 lines, has double the number of lines on the 1945 version of the *standard* 1040 tax return.
- According to NTU, the IRS now lists more than 1,700 publications, forms, and instructions on its website.
- NTU estimates that the cost for federal tax compliance by corporations is \$159.4 billion, which is 54% of the corporate income taxes collected in fiscal year 2008.
- 62.8% of tax filers used paid preparers in 2006—up from 38.0% in 1980.
- **The IRS was appropriated \$11.6 billion in FY 2010. To put this figure in perspective, it is more than the amount Congress appropriated for missile defense programs.**
- In January 2008, the IRS had an annual payroll of nearly a half-a-billion dollars and employed more than 100,000 people—more than the **combined** number of employees (as of January 2008) at the Departments of State, Labor, Energy, Housing & Urban Development, and Education, along with the Census Bureau.
- According to NTU, the IRS “accounts for nearly 80 percent of the federal government’s entire paperwork load imposed on citizens.”

Working for the Taxman:

- This year, 100% of the income the average American earns from January 1st to April 8th (99 days) will go to pay federal, state, and local taxes in 2010, according to the Tax Foundation. Therefore, April 9th will be “[Tax Freedom Day](#),” the day on which the average American will start working for anything besides taxes.
- Tax Freedom Day in 1910 was January 19th, when taxes were just 5% of a person’s income. Now, as the Tax Foundation points out, Tax Freedom Day is nearly three months later (or later in some states), and taxes are more than 26% of a person’s income.
- Americans still spend more time working to pay taxes to all levels of government than they spend working to pay to put food on their tables, provide housing, and buy clothing **combined**.

Think You Have Paid Your Taxes for the Year? *Think Again!*

- Just because you’ve filed your federal income tax return, don’t think you’re done paying federal taxes this year. Throughout the rest of the year, you will continue paying more

federal taxes every time you fly on an airplane, make a phone call, or fill up your gas tank. These taxes are just the tip of the tax iceberg.

- Since the federal government taxes corporations, they are forced to factor these costs into the prices of the products and services they sell. Corporate income taxes cost families over \$3,190 a year in increased prices, according to the Tax Foundation. The U.S. corporate tax rate is the second highest of Organization for Economic Cooperation and Development (OECD) nations (exceeded only by Japan).

Don't Let the Sun Go Down:

- Senate rules combined with opposition from Senate Democrats to the various Republican tax cuts forced the inclusion of provisions sunsetting all of the 2001 and 2003 tax cuts by 2011 (and sooner, in certain cases). Congress must act again to either extend or make permanent the tax relief, otherwise a slew of large tax increases will automatically take effect.

Our Higher Tax Future?

- This year's "Tax Freedom Day" falls on April 9th. However, this figure does not include the total cost of government, since it only counts what the government collects in taxes, not the additional spending that is financed via borrowing. When deficit-financed spending is added, the result is a figure which gives a truer glimpse of what current spending may mean to future taxes. If Americans had to pay for all government spending this year, they would be working until May 17 before they had earned enough to pay their taxes.
- Current budget policies create an unsustainable gap between the amount that the federal government collects in taxes and the amount that it spends. According to the House Budget Committee Republicans, the budget resolution that the House passed in 2009 would cause federal spending to double as a percentage of the economy by 2040, and then to keep on growing (see chart on p. 7, [here](#)).

Fed Up?

Members of the Republican Study Committee are as well. Ultimately, the American people deserve a completely new tax code—not one that's tweaked around the edges (see H.R. 982, the Tax Code Termination Act, authored by Rep. Goodlatte). However, until tax-code replacement becomes reality, Congress could lower federal taxes and make the tax code fairer and simpler. Some ways to do this, as proposed by RSC Members, include:

- Repeal most federal taxes in favor of a national retail sales tax (*Linder, H.R. 25*);
- Reduce income tax rates, reducing corporate tax rates, providing full immediate expensing, and various other tax relief provisions for middle-class families (*Garrett-Price-Jordan, [H.R. 470](#)*);

- Repeal the Alternative Minimum Tax (AMT) and offering taxpayer choice of tax systems—the current one or a new, simplified one with lower tax rates (*Ryan-Hensarling-Campbell-Bachmann, H.R. 782*);
- Replace the current code with a flat tax (*Burgess, H.R. 1040*);
- Abolish any form of tax triggered by death, inheritance, and gifting (*Thornberry, H.R. 205*);
- Repeal the 1993 income tax increase on Social Security benefits (*Johnson, H.R. 1519*);
- Repeal the withholding of income and Social Security taxes (*Foxx, H.R. 1919*);
- Eliminate capital gains taxes for any asset bought in 2009 and held for at least one year (*Campbell, H.R. 1632*);
- Repeal the estate tax and make reductions in the gift tax (*Pitts, H.R. 1960 and Brady, H.R. 3463*);

Sources for Tax Facts:

[National Taxpayers Union](#), [Office of Personnel Management](#), and [The Tax Foundation](#) (also here: <http://www.taxfoundation.org/taxdata/show/1961.html>).

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